

**EFFECTS OF LEADERSHIP STYLE ON JOB SATISFACTION IN
SMALL AND MEDIUM ENTERPRISES (SMEs) IN MALAYSIA**

(QUANTITATIVE STUDY)

By

Loganatan a/l Yagambaram

**Research report in partial fulfillment of the requirements for the
degree of Master Business Administration**

Universiti Sains Malaysia

2012

ACKNOWLEDGEMENTS

Encouragement, support, and the assistance of others is how great work and impossible tasks are ever accomplished. I have been fortunate to have many people in my life that believe and respect others accomplishments and are willing to guide and direct them to achieve their goals. I would like to give special thanks to those people who believed in me to accomplish this paper.

First and foremost I would like to acknowledge my supervisor, Hj Noor Nasir bin Kadir. I am indebted to him for being more than my mentor, but an inspiration for me. He has concerns always skillfully guide me in the direction I needed to go. Special thanks to the respondents of the questionnaire for their willingness to assist me in completing this paper.

I would like to dedicate this work to my parents, sister and close friends for always guiding and lending their shoulder and thoughts in times of need. They always encouraged me all the way. I give all the glory to God who continues to strengthen my spirit and feed my soul.

ABSTRAK

Tujuan kajian ini adalah untuk melihat hubungan antara gaya kepimpinan pemimpin dan kepuasan kerja pekerja - pekerja *Small and Medium Enterprises (SMEs)* di Malaysia. Secara khususnya, kajian ini mengenalpasti bagaimana gaya kepimpinan yang diukur oleh *Multifactor Leadership Questionnaire (MLQ)* berkait dengan kepuasan pekerja dari segi gaji, kenaikan pangkat, penyeliaan, faedah sampingan, ganjaran, *operating conditions*, rakan sekerja, *nature of work* dan komunikasi yang diukur oleh *Job Satisfaction Survey (JSS)*. Borang kaji selidik yang digunapaki terdiri daripada *MLQ*, *JSS* dan soal selidik demografik telah diedarkan kepada 210 pekerja *SME* di Malaysia. Daripada kaji selidik ini, 175 borang kaji selidik (87.5%) telah dikembalikan dan 169 sah untuk digunapakai bagi kajian ini.. Teknik-teknik statistik seperti *descriptive* dan *inferential*, iaitu min, kekerapan, peratusan, *Cronbach alpha*, dan *Multiple Regression* digunakan untuk analisis dengan menggunakan perisian SPSS. Untuk kegunaan pengiraan statistik 0.05 *level of statistical significance* telah ditetapkan. Keputusan menunjukkan bahawa faktor dari gaya kepimpinan transformasi, iaitu tingkah laku *individualized consideration* terbukti menjadi peramal yang paling kerap dan ketara bagi aspek kepuasan kerja pekerja-pekerja *SME* di Malaysia. Walau bagaimanapun, tingkah laku *individualized consideration* dari gaya kepimpinan transformasional gagal meramal dua aspek kepuasan kerja, iaitu ganjaran dan faedah sampingan. Aspek kepuasan kerja, ganjaran berjaya diramal oleh gaya kepimpinan *passive / avoidant* secara songsang. Manakala, aspek faedah sampingan pula diramal oleh gaya kepimpinan transaksional secara positif dan gaya kepimpinan *passive / avoidant* secara songsang.

ABSTRACT

The purpose of this study is to examine the relationship between leader's leadership style and employee's job satisfaction in Small & Medium Enterprises (SMEs) in Malaysia. Specifically, this research identified how the leadership style measured by MLQ relates to employees' satisfaction with pay, promotion, supervision, fringe benefits, contingent rewards, operating conditions, coworkers, nature of work and communication as measured by Job Satisfaction Survey (JSS). Survey packages containing the MLQ, the JSS, and a demographic questionnaire were distributed to 210 employees who had worked in SME in Malaysia. Of these surveys, 175 survey forms (87.5 %) were returned and 169 were valid. Descriptive and inferential statistical techniques, including means, frequencies, percentages, Cronbach's alpha coefficients, and Multiple Regression were used for analysis by using SPSS. The .05 level of statistical significance was set for all statistical computation. The results indicated that sub-variable of transformational leadership style, individualized consideration behavior proved to be the most frequent and significant predictor of facets of job satisfaction of SME employees in Malaysia. However, sub-variables of transformational leadership failed to predict two aspect of job satisfaction, which was contingent reward and fringe benefits. Contingent rewards aspect of job satisfaction were significantly and negatively predicted by passive/avoidant leadership. Meanwhile, fringe benefits aspect of job satisfaction were significantly predicted by transactional leadership positively and passive / avoidant leadership negatively.

TABLE OF CONTENTS

	Pages
Acknowledgement	i
Abstrak (malay)	ii
Abstract	iii
Table of Contents	iv
List of figures	x
List of tables	xi

CHAPTER 1: INTRODUCTION

1.1	Introduction	1
1.2	Problem Statement	4
1.3	Purpose of the Study	6
1.4	Research Objectives	7
1.5	Research Questions	8
1.6	Scope of the Study	9
1.7	Significance of the Study	9
1.8	Definition of Terms	10
1.9	Organization of Remaining Chapters	11

CHAPTER 2: LITERATURE REVIEW

2.1	Introduction	13
2.2	Definition of Leadership	13

2.3	Full-Range Leadership Theory	15
2.3.1	Transactional Leadership	16
2.3.2	Transformational Leadership	17
2.4	FRLT and the Multifactor Leadership Questionnaire (MLQ)	19
2.5	Job satisfaction	21
2.6	Job Satisfaction Theory - Maslow's Hierarchy of Needs	26
2.7	Job Satisfaction Theory - Herzberg's "Motivation – Hygiene" Theory	28
2.8	Studies on the Relationship between Leadership Styles and Job Satisfaction	29
2.9	Definition of SME	34
2.10	Small and Medium Enterprises in Malaysia	35
2.11	Theoretical Framework	37
2.12	Hypotheses Development	38
2.13	Summary	39

CHAPTER 3: METHODOLOGY

3.1	Introduction	40
3.2	Population and Sample	40
3.3	Description of Instrumentation	41
3.2.1	Multifactor Leadership Questionnaire (MLQ)	41
3.2.2	Job Satisfaction Survey (JSS)	42
3.4	Malay Version of the Instrumentation	43

3.5	Scale Purification	43
3.6	Cronbach's Alpha Coefficient	43
3.7	Data Analyses Procedure	46
3.8	Descriptive Statistics	46
3.9	Inferential Statistics	46
3.10	Summary	47

CHAPTER 4: RESULT OF DATA ANALYSIS

4.1	Description of the survey participants	48
4.2	Gender	48
4.3	Age	49
4.4	Educational Background	49
4.5	Years of Professional Experience under the Current Employer	50
4.6	Years Worked with Current Supervisor	50
4.7	Leadership Factor Scales of the MLQ	51
4.8	Job Satisfaction Facets	55
4.9	Hypothesis Testing	58
4.9.1	Full Range Leadership (FRL) Model and Job Satisfaction - Pay	59
4.9.2	Full Range Leadership (FRL) Model and Job Satisfaction – Promotion	61
4.9.3	Full Range Leadership (FRL) Model and Job Satisfaction - Supervision	63

4.9.4	Full Range Leadership (FRL) Model and Job Satisfaction – Fringe benefits	64
4.9.5	Full Range Leadership (FRL) Model and Job Satisfaction – Contingent Rewards	67
4.9.6	Full Range Leadership (FRL) Model and Job Satisfaction – Operating Conditions	69
4.9.7	Full Range Leadership (FRL) Model and Job Satisfaction – Coworkers	71
4.9.8	Full Range Leadership (FRL) Model and Job Satisfaction – Nature of Work	73
4.9.9	Full Range Leadership (FRL) Model and Job Satisfaction – Communication	75
4.10	Summary of Hypothesis Testing	77
4.11	Conclusion	77

CHAPTER 5: SUMMARY, DISCUSSION, IMPLICATIONS AND RECOMMENDATIONS

5.1	Introduction	82
5.2	Recapitulation of the Study Findings	82
5.2.1	Leadership style and Job Satisfaction – Pay	82
5.2.2	Leadership Style and Job Satisfaction – Promotion	83
5.2.3	Leadership Style and Job Satisfaction – Supervision	83
5.2.4	Leadership Style and Job Satisfaction – Fringe Benefits	84

5.2.5	Leadership Style and Job Satisfaction – Contingent Rewards	85
5.2.6	Leadership Style and Job Satisfaction – Operating conditions	85
5.2.7	Leadership Style and Job Satisfaction – Coworkers	86
5.2.8	Leadership Style and Job Satisfaction – Nature of Work	86
5.2.9	Leadership Style and Job Satisfaction – Communication	87
5.3	Summary of Leadership Behavior Styles Influencing Facets of Job Satisfaction	88
5.4	Discussion	90
5.5	Implications	93
5.6	Limitations	94
5.7	Future Research	95
5.8	Conclusion	97
REFERENCE		98
APPENDICES		
Appendix A: MLQ Permission		112
Appendix B: Cover Letter and Questionnaire		113
Appendix C: Multiple Regression Results for Job Satisfaction – Pay		118
Appendix D: Multiple Regression Results for Job Satisfaction – Promotion		121
Appendix E: Multiple Regression Results for Job Satisfaction – Supervision		124

Appendix F: Multiple Regression Results for	
Job Satisfaction – Fringe Benefits	127
Appendix G: Multiple Regression Results for	
Job Satisfaction – Contingent Rewards	130
Appendix H: Multiple Regression Results for	
Job Satisfaction – Operating Conditions	133
Appendix I: Multiple Regression Results for	
Job Satisfaction – Coworkers	136
Appendix J: Multiple Regression Results for	
Job Satisfaction – Nature of Work	141
Appendix K: Multiple Regression Results for	
Job Satisfaction – Communication	144
Appendix L: Descriptive Analysis on Demographics	147

LIST OF FIGURES

	Pages
Figure 1.1. SME Contribution to Malaysian Economy	3
Figure 2.1. Maslow’s Hierarchy of Needs	27
Figure 2.2. Proposed Research Model	37
Figure 5.1. Outcomes of Multiple Regressions for Pay	61
Figure 5.2. Outcomes of Multiple Regressions for Promotion	63
Figure 5.3. Outcomes of Multiple Regressions for Supervision	64
Figure 5.4. Outcomes of Multiple Regressions for Fringe Benefits	67
Figure 5.5. Outcomes of Multiple Regressions for Contingent Rewards	69
Figure 5.6. Outcomes of Multiple Regressions for Operating Conditions	71
Figure 5.7. Outcomes of Multiple Regressions for Coworkers	73
Figure 5.8. Outcomes of Multiple Regressions for Nature of Work	75
Figure 5.9. Outcomes of Multiple Regressions for Communication	77

LIST OF TABLES

		Pages
Table 2.1	The definitions of the factors of Leadership based from the Full Range Leadership Model	21
Table 2.2	Summary of SME definitions in Malaysia	34
Table 3.1	Results of Cronbach's Alpha Internal Consistency Reliability for MLQ sub-variables	44
Table 3.2	Results of Cronbach's Alpha Internal Consistency Reliability for JSS Facets	45
Table 4.1	Distribution of the Respondents by Gender	48
Table 4.2	Distribution of the Respondents by Age	49
Table 4.3	Distribution of the Respondents by Educational Background	50
Table 4.4	Distribution of the Respondents by Years Worked with Current Employer	50
Table 4.5	Distribution of the Respondents by Years of Worked with Current Supervisor	51
Table 4.6	Reliability, Mean, and Standard Deviation Scores of Leadership Factor Scales	52
Table 4.7	Reliability, Mean, and Standard Deviation Scores of Job Satisfaction Facets	56
Table 4.8	Estimates of regression coefficients and significance for Job Satisfaction – Pay	60
Table 4.9	Estimates of regression coefficients and significance for Job Satisfaction – Promotion	62
Table 4.10	Estimates of regression coefficients and significance for Job Satisfaction – Supervision	64
Table 4.11	Estimates of regression coefficients and significance for Job Satisfaction – Fringe Benefits	66

Table 4.12	Estimates of regression coefficients and significance for Job Satisfaction – Contingent Rewards	68
Table 4.13	Estimates of regression coefficients and significance for Job Satisfaction – Operating Conditions	70
Table 4.14	Estimates of regression coefficients and significance for Job Satisfaction – Coworkers	72
Table 4.15	Estimates of regression coefficients and significance for Job Satisfaction – Nature of Work	74
Table 4.16	Estimates of regression coefficients and significance for Job Satisfaction – Communication	76
Table 4.17	Hypothesis Results & Decision	78
Table 5.1	Summary of Leadership Behavior Styles Influencing Facets of Job Satisfaction	89

CHAPTER 1

INTRODUCTION

1.1 Introduction

Previous research findings reveal that job satisfaction is an important element in influencing a firm's performance. This is because high level of job satisfaction will produce a positive attitude towards job commitment, which in turn can reduce the level of absenteeism, termination of service, negligence at work and increase productivity as well as efforts towards work excellence.

Prior research has demonstrated that leadership is a key determinate of job satisfaction (Mowday, Porter, & Steers, 1982). In particular, there is considerable research suggesting that leadership is positively associated with job satisfaction in a variety of organizational settings and cultures (Avolio, Zhu, Koh, & Bhatia, 2004; Rad & Yarmohammadian, 2006). Leadership is a management function and has been defined as the process of influencing people so that they will achieve the goals of the organization (Watson, 1983). Leadership has also been defined as "the process of influencing the activities of an organized group toward goal achievement" (Rauch & Behling, 1984). Therefore, the success of an organization in achieving its goals and objectives is highly dependent on leaders and their leadership style. By using appropriate leadership styles, leaders can influence employee's job satisfaction, commitment, and productivity. Studies have described relationships between job satisfaction and leadership styles (Wilkinson & Wagner, 1993). Wilkinson and Wagner (1993) found that elements of a

supervisory leadership style are significantly related to job satisfaction of state vocational rehabilitation agency counselors in Missouri. For example they found that both a leader's support ($r = .418, p < .001$), and a leader's coaching are related to job satisfaction ($r = .502, p < .001$). Moss and Rowles (1997) demonstrated that for nurses, leadership styles that were participative resulted in improved job satisfaction. Similarly, Packard and Kauppi (1999) studied the impact of the leadership styles of school principals on teachers' job satisfaction and found that the leadership styles of supportiveness and consideration contribute to job satisfaction.

According to the Census of Establishments and Enterprises (2005), there are a total of 548,267 establishments of Small Medium Enterprises (SMEs) in the manufacturing, agricultures and services sectors in Malaysia. From the above total 39,373 (7.3%) enterprises are in the manufacturing sector, 474,706 (86.9%) in services and 34,188 (5.8%) in the agriculture sector. Astonishingly, SMEs account for 98.8% or 516,855 of all enterprises enumerated. In the services sector, SMEs make up 99.4% or 449,001 of all service enterprises whereas in manufacturing they account for 96.6% or 37,865 establishments. As for the agriculture related activities, 92.6% or 29,985 enterprises exist in the agriculture sector. Their contributions can be assessed in terms of their numbers, economic output, employment opportunities provided and assisting large companies (Hashim, 2005). As mentioned by Hashim and Wafa (2002), in year 2000, SMEs contributes about 22.2 percent of total economic output and accounted for 17.9 percent of the total employment opportunities in the manufacturing sector. Based from SME Master Plan, the forecast for 2020 GDP contribution of SMEs in Malaysia is expected to reach 41% as compared to 31.9% currently, employment is expected to

increase by 3% to 62% and exports from 19% to 25% by 2020. Hence, the figures indicate the importance and the vital role of SMEs in the country's future economy prospect.

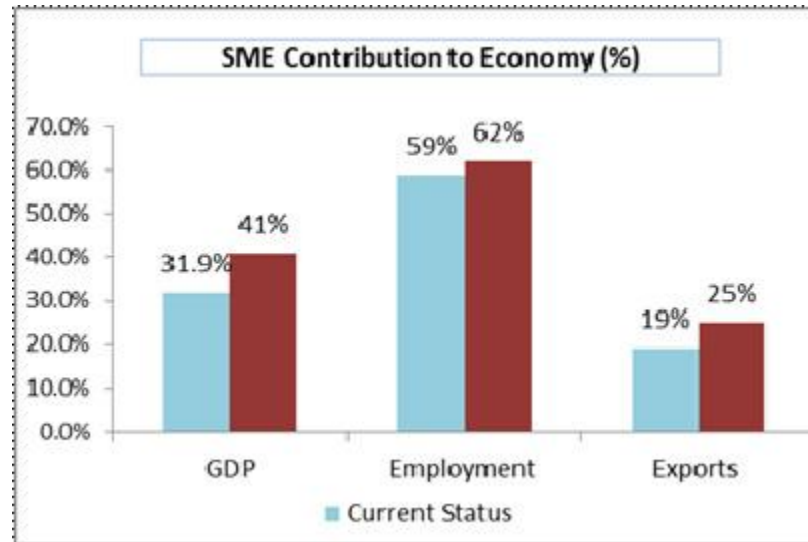


Figure 1.1: SME Contribution to Malaysian Economy

Source: SME Corp. Malaysia & Department of Statistics, Malaysia

The SME's organizational structures are different from large firms. A leader is the primary soul of any enterprise. The leader's leadership style could directly affect subordinates' working attitude, total production, and enterprise's success. Therefore, the leaders in Malaysian SME's are not only required to formulate detailed plans, create efficient organizational structures, and oversee day-to-day operations, they are also required to have effective leadership skills. Leadership plays a vital role in an organization. Beaver (2003) found the primary cause of small business failures in the United States was management incompetence as leaders. Traditional methods of

leadership are not sufficient to satisfy the needs of employees (Matrunola, 1996). The turmoil in today's work environment has left employees scared and continually striving to protect their own interests rather than considering the long-term interests of their company. To achieve satisfaction, employees need to feel connected to something more permanent. Harris and Brannick (1999) agreed by stating that more stable leader-employee connections are needed. To achieve this stability, Katz and Kahn (1978) state that the organizational position of people, such as leaders, shapes the expectations within an organization and that it defines the meanings for work behaviors and relationships

1.2 Problem Statement

Leadership and job satisfaction are recognized as fundamental components influencing the overall effectiveness of an organization (Kennerly, 1989). In addition, Packard & Kauppi (1999) mentioned that a leader's style has a definite influence on an employee's job satisfaction. However, employees are no longer satisfied with traditional leadership practices (Matrunola, 1996). Therefore recognizing, adopting and practicing the appropriate leadership styles are vital for future leaders as it effects on employees job satisfaction, commitment and productivity. For instance, in public sector in Malaysia, research has showed that transformational leadership style has a strong relationship on job satisfaction of employees (Voon, Lo, Ngui, & Ayob, 2011).

Lin (2003) who conducted a research to examine the perception of leaders leadership style and the employees' job satisfaction among the employees at SMEs in Taiwan found that overall perceived leadership style emerged as the significant predictor of the employees job satisfaction whereby transformational leadership style significantly

and positively predicted job satisfaction where else transactional and laissez-faire leadership style significantly and inversely predicted overall job satisfaction.

Thus, for SMEs in Malaysia to continue as an important contributor to the country's economy, Hashim (2005) the most significant leadership style which has the highest impact on the job satisfaction of employees in SMEs has to be identified.

Nonetheless, in Malaysia, research on job satisfaction has been carried out in on various industrial sectors. Dawal and Taha (2006) reported that job factors such as age, work and marital status and environmental factors such as surroundings, context dependence and the building's function, affecting job satisfaction in two automotive industries in Malaysia. Lew and Liew (2006) explored the antecedents of needs and job satisfaction among employees of a leading bank in Malaysia and the implications for the management of bank employees. Santhapparaj and Shah (2005) reviewed job satisfaction among women managers in Malaysian automobile sector and Santhapparaj et al. (2005) studied the job satisfaction among academic staff in private universities in Malaysia. Voon, Lo, Ngui and Ayob (2011) found that transformational and transactional leadership styles have significant relationships with employees' job satisfaction in the public sector organizations in Malaysia. Research was also conducted to hypothesize the direct impact of mentoring on employees' job satisfaction among Malaysian SME, where a positive relationship was shown between career mentoring and job satisfaction (May-Chiun & Ramayah, 2011). Another research on leadership styles and job satisfaction among the SME employees in Malaysia by Hashim (2008), found significant positive relationships between perceptions toward transformational and transactional leadership styles and job satisfaction among employees in Malaysian SMEs. Finally, a research on understanding

how fostering niches is influenced by organizational commitment, leadership, and organizational culture, towards job satisfaction among employees in Malaysian SME's found leadership and organizational culture considerably have an influence on job satisfaction (Gallato, Rashid, Suryasaputra, Warokka, Reamillo, & Abdullah, 2012) .

However, a review of Malaysian literature has indicated that there are a limited number of studies available on research pertaining to the relationship between leadership style and job satisfaction in SMEs in Malaysia. This study will contribute to partially filling this gap.

1.3 Purpose of the Study

The primary purpose of this study is to describe and examine the employee's perception of leader's leadership style on the job satisfaction at SMEs in Malaysia. Specifically, this research would identify whether Full Range of Leadership (FRL) model which consist of transformational, transactional and passive/avoidant leadership styles which is measured by the Multifactor Leadership Questionnaire (MLQ), predicts employees' job satisfaction, as measured by Job Satisfaction Survey (JSS). Both the instruments are widely used to measure leadership styles and job satisfaction. Similar research was conducted by (Lin, 2003) in Taiwan and found significant relationship between leadership style and job satisfaction among the SME employees in Taiwan.

1.4 Research Objectives

The objectives of this study are as per followings:

1. To examine whether employees' perception of their leader's leadership style based from the FRL model influence employees' job satisfaction in terms of pay.
2. To examine whether employees' perception of their leader's leadership style based from the FRL model influence employees' job satisfaction in terms of promotion.
3. To examine whether employees' perception of their leader's leadership style based from the FRL model influence employees' job satisfaction in terms of supervision
4. To examine whether employees' perception of their leader's leadership style based from the FRL model influence employees' job satisfaction in terms of fringe benefits
5. To examine whether employees' perception of their leader's leadership style based from the FRL model influence employees' job satisfaction in terms of contingent rewards
6. To examine whether employees' perception of their leader's leadership style based from the FRL model influence employees' job satisfaction in terms of operating conditions
7. To examine whether employees' perception of their leader's leadership style based from the FRL model influence employees' job satisfaction in terms of coworkers
8. To examine whether employees' perception of their leader's leadership style based from the FRL model influence employees' job satisfaction in terms of nature of work
9. To examine whether employees' perception of their leader's leadership style based from the FRL model influence employees' job satisfaction in terms of communication

1.5 Research Questions

Based on the purpose of the study, these research questions are as developed:

1. Can employees' perception of their leader's leadership style based from the FRL model influence employees' job satisfaction in terms of pay?
2. Can employees' perception of their leader's leadership style based from the FRL model influence employees' job satisfaction in terms of promotion?
3. Can employees' perception of their leader's leadership style based from the FRL model influence employees' job satisfaction in terms of supervision?
4. Can employees' perception of their leader's leadership style based from the FRL model influence employees' job satisfaction in terms of fringe benefits?
5. Can employees' perception of their leader's leadership style based from the FRL model influence employees' job satisfaction in terms of contingent rewards?
6. Can employees' perception of their leader's leadership style based from the FRL model influence employees' job satisfaction in terms of operating conditions?
7. Can employees' perception of their leader's leadership style based from the FRL model influence employees' job satisfaction in terms of coworkers?
8. Can employees' perception of their leader's leadership style based from the FRL model influence employees' job satisfaction in terms of nature of work?
9. Can employees' perception of their leader's leadership style based from the FRL model influence employees' job satisfaction in terms of communication?

1.6 Scope of the Study

This study examines the relationship between the employees' perception of the leader's leadership style and its relationship with job satisfaction of the employees at SMEs in Malaysia. Unit of analysis are Malaysian SME employees. Three sets of questionnaires, including MLQ, Job Satisfaction Survey (JSS) and Demographics were distributed for data collection.

1.7 Significance of the Study

This study is significant because it contributes to an expansion of the knowledge base related to the relationships between job satisfaction and perceived leadership styles within the SMEs in Malaysia. More specifically, this study has the potential to identify which leadership style has an impact on employees' satisfaction in relation to their job. Consequently, if employees are satisfied, it reduces absenteeism, excessive employment turnover, lack of initiative and lack of support. Therefore, it encourages motivation, innovative culture, productivity and ultimately growth and profitability. This research also contributes towards understanding, that type of leadership styles plays an important role towards organizational performance via-a-via job satisfaction. This study will contribute to a better understanding of the leadership styles currently being used by leaders with specific information provided on what leaders are doing well so these practices can be reinforced. Furthermore, this study could identify the gaps which may produce opportunities for future improvements.

1.8 Definition of Terms

Small and Medium Enterprises (SMEs): The definitions for Small and Medium Enterprises (SMEs) in Malaysia as adopted by National SME Development Council and SMECorp which was subsequently adopted by various government agencies and private enterprises to include the two main categories as follows:

1. Manufacturing (including agro-based) and manufacturing-related services enterprises with full-time employees not exceeding 150 or with annual sales turnover not exceeding RM25million.
2. Service, primary agriculture and information and communication technology (ICT) with full-time employees not exceeding 50 or annual sales turnover not exceeding RM5 million.

Leadership: Leadership is the ability to inspire confidence and support among the people who are needed to achieve organizational goals (DuBrin, 1998). “Leadership is the influence, especially influence of the behavior and thoughts of others. Leadership is defined as "the art of mobilizing others to want to struggle for shared aspirations (Kouzes & Posner, 1997)."

Leadership Style: The relatively consistent pattern of behavior that characterizes a leader (DuBrin, 1998). “Styles reflects the process by which the leader interacts with others to get the job done” (Rosenbach & Taylor, 1989).

Job Satisfaction: Job satisfaction refers to the extent to which employees' expectations are being met in relation to their jobs (Loscocco & Bose, 1998). Job satisfaction is the attitude that individuals have about their job within their work environment. The attitude is based on the perceptions of their surrounding work environment, which includes the

leadership, opportunities for growth, policies and procedures, working conditions, co-worker, and supervisor relationship and fringe benefits (Gibson, 2003).

Transformational Leadership: Transformational leadership entails raising the level of motivation of their followers beyond exchange values and thus achieves a higher level of performance and followers self-actualization (Burns, 1978). Transformational leadership is development oriented for the purpose of change (Bass, 1985).

Transactional Leadership: Transactional leadership motivates followers by appealing to their self-interest and it is based on exchange relationship, whereby follower compliance is exchanged for expected rewards (Burns, 1978). Transactional leadership entailed the exchange value of things with no mutual pursuit of higher order purpose or just enough to produce minimum organizational production. Transactional leadership is generally sufficient for maintaining the status quo (Bass, 1985).

Laissez-faire Leadership: This refers to the absence of leadership. A person in a leadership role that avoids making decisions and carrying out their supervisory responsibilities exemplifies it. They are not reactive or proactive, but inactive and passive in their leadership role (Bass & Avolio, 1994).

1.9 Organization of Remaining Chapters

Chapter 1 renders an overview of the present study. The purpose and the research objectives have been put forth to steer the direction of the present study. The importance of the present study is addressed to provide readers the rationale of conducting the study. Chapter 2 is on the background theories and model being studied in the study. It will discuss the theories involved with job satisfaction and the leadership model used in the

research. Literature review on the dependent variable and the independent variables are presented in this chapter. Hence, the research model is put forward with the hypothesis developed for this research.

Chapter 3 illustrates the methodology applied in the present study which encompasses the sample collected, measurements, and the statistical analyses.

Chapter 4 presents the results of the statistical analysis for the data collected and the findings encapsulated from the analyses.

Finally, Chapter 5 provides discussions and implications of the present study's findings. It also highlights the limitations of the present study and proposes some suggestions for future research. Lastly, conclusions will be penned to wrap up this research.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

There are many changes in the conduct of business taking place as we start the twenty-first century (Hodgetts, Luthans, & Doh, 2006). Job satisfaction in the workplace in the twenty-first century must advance along with the advancement of globalization. Leadership in the twenty-first century is also evolving. As satisfaction levels have dropped, the need for motivational leadership has increased (Bryman, 1992). The relationship between leadership and job satisfaction is increasingly important in understanding today's globalized society. Therefore, the purpose of this research study is to examine the relationships between perceived leaders' leadership style and job satisfaction among the employees of SMEs in Malaysia. This chapter focuses on reviewing literature that is related to job satisfaction and leadership style, and then the literature within these topics as it relates to employees in SMEs in Malaysia. Finally, identification of gaps in the knowledge base and how this study fulfills them will be discussed.

2.2 Definition of Leadership

Many attempts have been made by researchers to compile the developments of research methodologies on leadership (House, Wright, & Aditya, 1997; Peng, Peterson, & Shyi, 1991). There is a wide spectrum of definitions of leadership (Alvesson, 2002).

According to Northouse (2004), leadership is a process whereby an individual influences a group of individuals to achieve a common goal. Yukl (1989) points out that numerous definitions of leadership have circulated around the involving and influence process. “Researches usually define leadership according to their individual perspectives and the aspects of the phenomenon that most interest them” (Yukl, 2001).

Following are some of the definitions and perspectives of the contemporary researches;

Bass (1990) defined leadership as follows:

- i. Leadership as a focus of group process
- ii. Leadership as personality and effects
- iii. Leadership as the art of inducing compliance
- iv. Leadership as the exercise of influence
- v. Leadership as an act of behavior
- vi. Leadership as a form of persuasion
- vii. Leadership as a power relation
- viii. Leadership as an instrument of goal achievement
- ix. Leadership as emerging effect of interaction
- x. Leadership as a differentiated role
- xi. Leadership as an initiation of structure

Leadership as a combination Yukl (1989) defined leadership as;

- i. influencing task objectives and strategies,
- ii. influencing commitment and compliance in task behavior to achieve these objectives, influencing group maintenance and identification

iii. influencing the culture of an organization

Romig (2001) defines leadership as “ A two way street; interaction field; visionary goals; focused creativity; structured participation; proven knowledge; transferred authority” (Romig, 2001). Kouzes and Posner (1995) through a case study and questionnaires defined leadership practice as “challenge the process; inspire a shared vision; enable others to act; model the way; encourage the heart” (Kouzes & Posner, 1995). Hemphill and Coons (1957) define leadership as an inter-personal interaction process under certain situations that guides a group to move together (Katz & Kahn, 1978) towards a specified goal (Tannenbaum, Weschler, & Massarik, 1961; Bowers & Seashore, 1969). Jacobs and Jaques (1990) mentioned that in the leadership process, all members’ activities are guided and coordinated via non-compulsory influence in order to achieve the goals for the organization (Jago, 1982; Robbins, 1998). In the following section, Bass and Avolio’s Full-Range Leadership model will be examined as well as an overview of studies that have examined the most common instrument for gauging the model- the MLQ.

2.3 Full-Range Leadership Theory

Full Range Leadership Theory (FRLT) is said to be the most widely accepted and researched leadership approaches during the late 20th century and early 21st century (Antonakis & House, 2002). Transformational leadership has been proven to significantly and positively affect organizational effectiveness (Avolio & Bass, 2004; Dumdum, Lowe, & Avolio, 2002).

Transformational and transactional leadership theory emerged from the works of political scientist Burns' transforming leadership concept in which Burns (1978) examined the life of great political and social leaders who made extraordinary transformations in nations, societies and groups. He later concludes that leaders use two different sets of behaviors to influence their followers: (a) transactional leadership or (b) transformational leadership. The FRLT was the catalyst that moved the leadership field forward from the trait and contingency approaches of the 1930s, the behavioral approaches of the 1950s and 1960s, and contingency theories of the 1960s and 1970s (Antonakis & House, 2002). Since 1985, the descriptions of the two leadership approaches, i.e. transformational and transactional, have evolved and have been refined.

2.3.1 Transactional Leadership

Contrary to transformational leadership, Burns (1978) defined transactional leadership as a process of social exchange whereby leaders rely on organizational rewards and punishments to increase the performance of employees. Transactional leadership is characterized by working directly with individuals and groups, establishing contracts to achieve work objectives, determining individual's capabilities, and setting up a compensation and rewards system. In addition, they emphasize assignments, work standards and task oriented goals. In its corrective form, transactional leadership consists of waiting for mistakes to occur before acting (passive), and closely monitoring for the occurrence of mistakes (active) (Avolio & Bass, 2004). It is based on bureaucratic authority within an organization. Rewards and punishment dictate employee performance

with the use of contingent rewards and management by exception (Smith, Montagno, & Kuzmenko, 2004).

Bass further explains that transactional leaders operate within the existing system or culture, avoids risk, pays attention to time constraints and efficiency and typically focuses on the process to be in control (Bass, 1985). In addition, only expects followers to achieve the agreed goals (Bass, 1985; Bass & Avilio, 2004). Bass (1985) admits that in times where the environment is stable and predictable, a skillful transactional manager is likely to be effective in maintaining routine activities. Transactional leadership also provides clarification of the process and providing rewards which may benefit the organization as it may grow confidence in followers to carry out their obligations and accomplish mutually accepted goals. However, in times of dynamic and challenging environment, transactional leadership could stir disorder which may lead to stress and low motivation level among the employees (Bass, 1985). Therefore, a better and improvised leadership style is needed to overcome the challenges of lack of commitment and low levels of motivation among the employees during times of change and uncertainty.

2.3.2 Transformational Leadership

Transformational leadership was defined as motivation of followers by appealing to higher ideals and moral values (Burns, 1978). Accordingly, transformational leadership “occurs when one or more persons engage with others in such a way that leaders and followers raise one another to higher levels of motivation”. Transformational leadership is further explained by certain characteristics such as inspirational, intellectually

stimulating, challenging, visionary, development oriented, and determined to maximize performance. The process of transformational leadership incorporates the needs of the individual and motivates people to perform higher than they thought they were capable of doing (Avolio & Bass, 2004). In 1985, Bass argued that transformational leadership would account for a greater share of the difference in organizational outcomes when compared to more traditional, transactional approaches to leadership. Transformational and transactional leadership have been found to positively correlate with organizational outcomes in studies of diverse organizations such as profit-oriented organizations (Barling, Loughlin, & Kelloway, 2002; Barling, Weber, & Kelloway, 1996), trade unions (Kelloway & Barling, 1993), the military (Bass, Avolio, Jung, & Berson, 2003), sports teams, and churches (Avolio & Bass, 2004).

Transformational leadership was proven to increase effectiveness and satisfaction among the followers as compared to transactional leadership, but an effective leader combines both transformational and transactional leadership approaches (Avolio & Bass, 2004; Dumdum, et al., 2002; Kark & Shamir, 2002). Hence Bass (1985) introduces transformational leadership, which fits this shift whereby leaders are visionary, confident, and determined individuals who motivate their followers to do more than they were originally expected to do. Basically, transformational leaders transform the basic values, beliefs, and interests of their followers by raising their consciousness about the importance of specific and idealized goals, transcending their self-interests for the good of the organization, and addressing their higher level self-actualization needs as defined by Maslow's hierarchy of needs (Bass, 1985; 1990; 1998). Bass (1985) claims that transformational leaders differ from transactional leaders as transformational leaders seek

new ways of working, seek opportunities to grow, and are less likely to support the status quo.

2.4 FRLT and the Multifactor Leadership Questionnaire (MLQ)

Extensive research has been carried out to understand the outcome of transformational and transactional leadership styles. Transformational leaders tend to work as an ethical manager by understanding their employees and encouraging them to become leaders themselves. On the contrary, transactional leaders have less regular interaction with employees and are concerned primarily with production (Matey, 1991). Researchers in leadership and organizational behavior assert that a supervisor's leadership style has a significant effect on employee attitudes, satisfaction, and motivation (Dumdum, et al., 2002; Felfe & Schyns, 2004; Gellis, 2001).

Based on a research on the impact of leadership, “transformational leaders differ from a transactional one by not merely recognizing associates' needs, but by attempting to develop those needs from lower to higher levels of maturity” (Avolio & Bass, 2004). Hence, it is obvious that transformational leaders encourage the growth and development of others beyond ordinary expectations. Based on Multifactor Leadership Questionnaire (MLQ), researchers found that transformational leaders tend to have a greater influence and generate higher levels of employee satisfaction, extra effort, and motivation when compared to transactional leaders (Chen, 2004; Matey, 1991). Subsequently, other researchers (Deluga, 1998; Yammarino, Spangler & Bass, 1993) examined transformational and transactional leadership in organizations and found that, in general

transformational leadership is more significant and positively correlated with leadership outcomes that included extra effort, leader effectiveness, or satisfaction.

Numerous studies have empirically tested the full-range leadership model utilizing the most frequently employed instrument for gauging this model-The Multifactor Leadership Questionnaire (MLQ) (Antonakis, 2001; Avolio & Bass, 2004; Dumdum, et al., 2002). As mentioned earlier, many studies in various types of organization using MLQ found that transformational leadership to be positively correlated with leadership outcome measures ranging from leadership of academic deans (Xu, 1991) to the performance of military units (Bass, Avolio, Jung, & Berson, 2003).

Bass and Avolio (1994) developed the FRL model in order to better explain the wide range of leadership behaviors. They integrated transformational and transactional leadership models into the FRL model. The FRL model consists of nine leadership behaviors that are categorized into three main leadership styles: (a) transformational, (b) transactional, and (c) passive / avoidant leadership. Summary of leadership factors and its definitions are exhibited in Table 2.1

Table 2.1:

The definitions of the factors of Leadership based from the Full Range Leadership Model

Leadership factor	Leadership Behavior
Idealized Influence (Attribute)	The leader has the followers' respect, faith, and trust. The followers want to identify with the leader. The leader shows determination and conviction.
Idealized Influence (Behavior)	The leader shared a vision and sense of mission with the followers. Radical, innovative solutions to critical problems are proposed for handling followers' problems.
Inspirational Motivation	The leader increases the optimism and enthusiasm of followers. The leader communicates with fluency and confidence using simple language and appealing symbols and metaphors.
Intellectual Stimulation	The leader encourages new ways of looking at old methods and problems. The leader emphasizes the use of intelligence and creativity. The leader provokes rethinking and re-examination of assumptions on which possibilities, capabilities, and strategies are based.
Individualized Consideration	The leader gives personal attention to followers and makes each feel valued and important. The leader coaches and advises each follower for the followers' personal development.
Contingent reward	The leader gives followers a clear understanding of what needs to be done and/or what is expected of them, then arranges to exchange rewards in the form of praise, pay increase, bonuses, and commendations.
Management-by-Exception (Active/Passive)	When it is active, the leader monitors the followers' performance and takes corrective action when mistakes or failures are detected. When it is passive, the leader intervenes only if standards are not met or if something goes wrong.
Laissez-faire	Leadership is not attempted. There is abdication of responsibility, indecisiveness, reluctance to take a stand, lack of involvement, and absence of the leader when needed.

2.5 Job satisfaction

Organizations are viewing employees as assets and not liabilities (Pituro, 1999). Job satisfaction is employee reactions toward their work experiences (Berry, 1997), emotional state or reactions toward the job (Gruneberg, 1979, Landy & Conte, 2004),

how positive people feel about their job, aspects of their job (Spector, 1997) and work situations (Wood, Wood & Boyd, 2007). Job satisfaction refers to worker's attitudes towards the work and the related environment (Hoppock, 1935; Tannenbaum et al., 1961). Hoppock (1935) defined job satisfaction as "any combination of psychological, physiological and environmental circumstances that cause a person to truthfully say, "I am satisfied with my job". Balzer (1990) stated that job satisfaction is "the feelings a worker has about his or her job experiences in relation to previous experiences, current expectation, or available alternatives".

Job satisfaction has been defined as a self-reported, positive emotional state resulting from the appraisal of one's job or from job experiences (Locke, 1976). Kalleberg (1977) described job satisfaction as the "overall affective orientation on the part of individuals toward work roles which they are presently occupying". Locke (1976) defined job satisfaction as a positive or pleasing emotional state from the appraisal of one's job or experience. This definition suggests that employees form their attitude towards their jobs by taking into account their feelings, beliefs and behaviors (Robbins, 2005; Akehurst, Comeche, & Galindo, 2009). Job satisfaction refers to the difference between what a worker should obtain and what a worker can actually obtain (Locke, 1976; Davis, 1977; Wexley & Yukl, 1977; Arnett Laverie & McLane, 2002) – the bigger the difference, the lower the satisfaction, and vice versa. Locke (1976) defined job satisfaction as "a pleasurable or positive emotional state resulting from the appraisal of one's job or job experiences". A job is "a complex interrelationship of tasks, roles, responsibilities, interactions, incentives, and rewards"

Job satisfaction has been examined more than any other area by industry psychology and organizational psychology for a long time (Chen, 1995). Interest in factors that influence job satisfaction has been evident since the beginning of the factory system for which managers were required to “maintain a trained and motivated work force” (Shafritz & Ott, 2001). According to Galup, Klein, and Jiang (2008), successful organizations normally have satisfied employees while poor job satisfaction can cripple an organization. It has been demonstrated that an increased level of worker job satisfaction negatively correlates to an employee's intention to quit (SHRM, 2002). The issue about how to improve job satisfaction has been a concern of both managers and employees (Cranny, Smith, & Stone, 1992)

(Locke, 1976). Locke classified jobs into nine dimensions.

- Work--variety, opportunities for growth and learning, amount, difficulty.
- Pay--amount, equity, method of payment.
- Promotion--fairness, opportunities for.
- Recognition--celebrations, praise, criticism.
- Benefits--pension, leave time, vacations, health.
- Working conditions--hours, breaks, physical layout, temperature, location.
- Supervision--style, skill, ability, human relations.
- Co-workers--friendliness, competence, support.
- Company and management--employee relations, benefit packages.

Thompson, McNamara, and Hoyle's (1997) research sought to synthesize findings on job satisfaction from the numerous studies from 1965-1990. Identifying

factors that influence job satisfaction provides organizational leaders with necessary, meaningful information to make intelligent decisions regarding interventions aimed at increasing employee job satisfaction (Cranny et al., 1992). The most important reasons to identify the level of job satisfaction of employees are to understand their level of commitment towards the organization, to evaluate the performance and productivity, to identify reasons for high absenteeism, tardiness and turnover, and to improve the retention of employees in order to reduce the cost of rehiring and retraining of new employees (Murray, 1999)

Satisfaction on the job reflects important employee attitude towards their job (Spector, 1997), indicating what makes a job enjoyable and a satisfying working environment (Smither, 1994).

Thus, job satisfaction is often considered to be an indicator of employee emotional well-being or psychological health leading to indicate behavior that could affect organizational functioning. Job satisfaction is often considered to be the most interesting variable in industrial and organizational psychology research (Smither, 1994). In the past, some researchers approached the study of job satisfaction from the perspective of needs fulfillment, meaning if the job meets the subordinates physical and psychological needs for the things provided by job, such as pay, employees were satisfied (Porter, 1962; Wolf, 1970). Spector (1985) found that if the employees find their job fulfilling and rewarding, they tend to be more satisfied with their jobs. Vroom (1964) believed that job satisfaction generally refers to the feeling or emotional reaction associated with a role in an organization (Cribbin, 1972; Locke, 1976; Arnett et al., 2002). Smith, Kendall, and Hulin (1969) believed that job satisfaction referred to the